

Message Text

UNCLASSIFIED

PAGE 01 ANKARA 02453 01 OF 02 030934Z
ACTION EUR-12

INFO OCT-01 ISO-00 AGRE-00 DOE-15 SOE-02 AID-05
CIAE-00 COME-00 EB-08 FRB-01 INR-10 NSAE-00
ICA-20 TRSE-00 XMB-04 OPIC-06 SP-02 LAB-04 SIL-01
OMB-01 NSC-05 SS-15 STR-07 CEA-01 L-03 H-02 PA-02
/127 W

-----084053 030945Z /15

R 030555Z APR 78
FM AMEMBASSY ANKARA
TO SECSTATE WASHDC 1303
INFO AMCONSUL ADANA
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMCONSUL ISTANBUL
AMCONSUL IZMIR
AMEMBASSY PARIS

UNCLAS SECTION 1 OF 2 ANKARA 2453

USEEC
USOECD

E.O. 11652: N/A
TAGS: ECON, EFIN, ELAB, TU
SUBJ: INFLATION IN TURKEY: THE MEASUREMENT DIFFICULTIES

1. SUMMARY: THE TURKISH PRICE STRUCTURE IS DISTORTED
BY GOVERNMENT POLICIES WHICH MASK INFLATION WITH PRICE
CONTROLS AND SUBSIDIES. THE EXTENT OF THE DIS-
TORTION IS DIFFICULT TO MEASURE BECAUSE OF THE LACK OF
ADEQUATE PRICE INDICES. THE OUTPUT OF STATE
ECONOMIC ENTERPRISES(SEE'S) IS ABOUT 10 PERCENT OF GNP;
BUT THE IMPACT OF THE PRICES THEY CHARGE LOOMS LARGE
IN THE WHOLESALE PRICE INDEX WHICH INCLUDES A DISPRO-
PORTIONATE NUMBER OF STATE-PRODUCED PRODUCTS. THE
IMF STABILIZATION PROGRAM WILL REQUIRE TURKEY TO REDUCE
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 ANKARA 02453 01 OF 02 030934Z

THE DEFICITS OF SEE'S BY INCREASING THE PRICES OF THEIR
PRODUCTS. THESES PRICE INCREASES WILL PROBABLY HAVE
A DISPORPORTIONATE IMPACT ON THE WHOLESALE PRICE INDEX,
THE MOST WIDELY USED MEASURE OF INFLATION. THE GOVERN-
MENT IS ALREADY UNDER PRESSURE TO TAKE ACTION TO
STABILIZE PRICES. THE LACK OF AN ADEQUATE PRICE INDEX
WILL MAKE IT MORE DIFFICULT TO DEMONSTRATE ANTI-

INFLATIONARY PERFORMANCE. END SUMMARY.

2. THE TURKISH GOVERNMENT HAS ATTEMPTED TO PROTECT CONSUMERS AGAINST INFLATION BY MAINTAINING LOW PRICES FOR BASIC SERVICES SUCH AS TRANSPORTATION, FUEL, ELECTRICITY AND BASIC FOODSTUFFS. AT THE SAME TIME IT HAS TRIED TO PROTECT PRODUCERS AGAINST INFLATION BY CONTROLLING PRICES AND SUBSIDIZING INPUTS INTO INDUSTRY AND AGRICULTURE. THE PRICE SYSTEM WHICH RESULTS FROM THESE UNCOORDINATED AND SOMETIMES CONFLICTING POLICIES IS VERY COMPLEX AND INCLUDES VARIOUS TYPES OF CONTROLS AND REGULATIONS ON THE PRICES OF GOODS, SERVICES AND FACTORS OF PRODUCTION.

3. THE QUALITY PRICE INDICES IN TURKEY ARE POOR. THE WHOLESALE PRICE INDEX PREPARED BY THE MINISTRY OF COMMERCE, WHICH IS USED IN OFFICIAL GOVERNMENT DOCUMENTS AS A MEASURE OF INFLATION IN TURKEY, DOES NOT PROVIDE AN ACCURATE REFLECTION OF CHANGES IN WHOLESALE PRICES BECAUSE IT IS BASED ON A LIST OF COMMODITIES AND WEIGHTS ESTABLISHED IN 1938. THIS INDEX, AT BEST, ONLY INDICATES GENERAL TRENDS AND ALLOWS SOME COMPARISON BETWEEN RELATIVE CHANGES IN WHOLESALE PRICES OF AGRICULTURAL GOODS AND INDUSTRIAL RAW MATERIALS. PRICES OF 95 COMMODITIES ARE MONITORED. AGRICULTURAL PRODUCTS ARE WEIGHTED ROUGHLY 60 PERCENT AND INDUSTRIAL PRODUCTS 40 PERCENT.

UNCLASSIFIED

PAGE 03 ANKARA 02453 01 OF 02 030934Z

CENT. RECENT PERFORMANCE OF THIS INDEX BASED ON YEAR-END CHANGES IS AS FOLLOWS:

WHOLESALE PRICE INDEX(1963 EQUAL 100)

(READ IN THREE COLUMNS: 1976; 1977; PERCENTAGE CHANGE 77/76)

A) GENERAL INDEX 429.7; 584.8; 36.1

B) AGRICULTURAL PRODUCTS 447.7; 596.8; 33.3

VEGETABLE FOOD-STUFFS (385.7); (446.6); (15.8)

LIVESTOCK (669.1); (1,070.6); (60.0)

ANIMAL PRODUCTS 471.4; (778.9); (65.2)

ANIMAL FEED (514.5); (631.4); (22.7)

C. INDUSTRIAL RAW MATERIALS AND SEMI-FINISHED GOOD 399.7; 564.8; 41.3

FUELS (393.2); (601.7); (53.0)

MINERALS (336.0); (461.4); (37.3)

HIDES (448.6); (589.1); (38.0)

TEXTILES (427.0); (519.9); (15.9)

INDUSTRIAL AND MINERALS OILS (342.5); (528.7); (54.4)

PAPER (229.2); (533.3); (132.7)

CONSTRUCTION MATERIALS (427.6); (786.8); (84.0)

(FIGURES IN PARENTHESES ARE SUBCATEGORIES OF THE TWO MAIN HEADINGS.)

THE WHOLESALE PRICE INDEX MASKS UNDERLYING INFLATIONARY

PRESSURES BECAUSE THE PRICES OF MOST OF THE COMMODITIES

IT COVERS ARE CONTROLLED BY THE GOVERNMENT(E.G., AGRICULTURAL

INPUTS, CEREALS, CEMENTS, PAPER, FUELS, MINERALS, STEEL).

4. THE FOLLOWING TABLE ILLUSTRATES THE EFFECT OF THE
SEPTEMBER 1977 PRICE INCREASES FOR A WIDE RANGE OF BASIC PRODUCTS
OF STATE ECONOMIC ENTERPRISES(SEE'S) ON THE WHOLESALE PRICE INDEX:
MONTHLY WHOLESALE PRICE INDEX 1977

	INDEX	PERCENTAGE CHANGE FROM PREVIOUS MONTH
JANUARY	440.7	2.5
FEBRUARY	444.8	0.9
MARCH	449.1	1.0
APRIL	465.5	3.7
MAY	471.3	1.2
JULY	479.8	0.6
AUGUST	482.2	0.5

UNCLASSIFIED

UNCLASSIFIED

PAGE 04 ANKARA 02453 01 OF 02 030934Z

SEPTEMBER	524.0	8.7
OCTOBER	548.0	4.7
NOVEMBER	565.2	3.0
DECEMBER	584.8	3.5

THE SUB-INDEX OF INDUSTRIAL RAW MATERIALS AND SMI-
FINISHED PRODUCTS WAS EVEN MORE RESPONSIVE TO THE SEE
PRICE INCREASES, JUMPING 17.4 PERCENT IN SEPTEMBER.

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 ANKARA 02453 02 OF 02 030948Z
ACTION EUR-12

INFO OCT-01 ISO-00 AGRE-00 PA-02 DOE-15 SOE-02 AID-05
CIAE-00 COME-00 EB-08 FRB-01 INR-10 NSAE-00
ICA-20 TRSE-00 XMB-04 OPIC-06 SP-02 LAB-04 SIL-01
OMB-01 NSC-05 SS-15 STR-07 CEA-01 L-03 H-02 /127 W
-----084152 030951Z /15

R 030555Z APR 78
FM AMEMBASSY ANKARA
TO SECSTATE WASHDC 1304
INFO AMCONSUL ADANA
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMCONSUL ISTANBUL
AMCONSUL IZMIR

AMEMBASSY PARIS

UNCLAS SECTION 2 OF 2 ANKARA 2453

USEEC
USOEC

5. CHANGES IN THE WHOLESALE PRICE INDEX ARE THEREFORE PRIMARILY A FUNCTION OF CHANGES IN THE GOVERNMENT-CONTROLLED PRICES CHARGED BY STATE ECONOMIC ENTERPRISES AND THE LACK OF CHANGES IN THE SUBSIDIZED PRICES OF AGRICULTURAL COMMODITIES MARKETING BY THE SOIL PRODUCTS OFFICE(TMO) AND STATE-RUN AGRICULTURAL COOPERATIVES.

6. THE MINISTRY OF COMMERCE CONSTRUCTED A NEW WHOLESALE PRICE INDEX IN 1975 BASED ON 1,000 COMMODITIES; HOWEVER, NO DATA ON THE PERFORMANCE OF THIS INDEX IN 1977 HAVE BEEN PUBLISHED.

7. THE ISTANBUL CHAMBER OF COMMERCE ALSO PREPARES A WHOLESALE PRICE INDEX BUT IT IS UNRELIABLE SINCE IT IS AN UNWEIGHTED GEOMETRIC MEAN OF THE PRICES OF FOODS, RAW MATERIAL, METALS, TEXTILES, CONSTRUCTION MATERIALS, FUELS, AND CHEMICALS. IT REGISTERED AN INCREASE OF 37.9 PERCENT IN 1977.
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 ANKARA 02453 02 OF 02 030948Z

8. THE MINISTRY OF COMMERCE ALSO PUBLISHED CONSUMER PRICE INDICES FOR ANKARA AND ISTANBUL. BOTH THESE INDICES ARE QUITE LIMITED IN THEIR COVERAGE, ONLY MEASURING PRICE CHANGES IN FOOD, UTILITIES AND CLOTHING. SIGNIFICANT EXPENDITURES LIKE RENT, TRANSPORTATION, MEDICAL CARE, CONSUMER DURABLES AND INSURANCE ARE NOT MEASURED. THE ANKARA INDEX REGISTERED A 42.3 PERCENT INCREASE IN 1977 WHILE THE ISTANBUL INDEX JUMPED 46.8 PERCENT.

9. THE STATE INSTITUTE OF STATISTICS (SIS) PUBLISHES CONSUMER PRICE INDICES FOR NINE CITIES INCLUDING ANKARA AND ISTANBUL. THESE INDICES ARE BASED ON THE RESULTS OF HOUSEHOLD CONSUMER EXPENDITURE SURVEYS CARRIED OUT BETWEEN 1964 AND 1970. THE WORLD BANK CONSIDERS THESE INDICES FAIRLY RELIABLE; HOWEVER, THE SIS IS SO LATE IN PUBLISHING ITS DATA (THE MOST RECENT INFORMATION IS AUGUST 1977) THAT THESE INDICES HAVE LIMITED USEFULNESS.

10. IN ACCORDANCE WITH THE IMF-BACKED STABILIZATION PROGRAM, THE GOVERNMENT WILL BE INCREASING THE PRICES OF A NUMBER OF SEE PRODUCTS. THE BASIC PURPOSE OF THESE PRICE INCREASES IS TO STRENGTHEN THE FINANCES OF SEE'S IN AN EFFORT TO REDUCE OR ELIMINATE THE NEED FOR SUBSIDIES BY THE TREASURY AND CENTRAL BANK. THESE

DIRECT TRANSFERS ARE PRIMARY DETERMINANTS OF THE FISCAL DEFICIT AND THE RAPIDLY-RISING MONEY SUPPLY (UP 37 PERCENT IN 1977). WHILE THE ELIMINATION OF THESE SUBSIDIES WILL BE DEFLATIONARY IN THE LONG-RUN, THE INCREASED SEE PRICES PROBABLY WILL CAUSE A SIGNIFICANT JUMP IN THE WHOLESALE PRICE INDEX IN THE COMING MONTHS. (THE INDEX IS ALREADY UP 8.8 PERCENT THROUGH UNCLASSIFIED

UNCLASSIFIED

PAGE 03 ANKARA 02453 02 OF 02 030948Z

FEBRUARY.) OF COURSE, SHORTAGES FROM REDUCED IMPORTS, THE EFFECT OF THE LIRA DEPRECIATION, AND INCREASED LABOR COSTS WILL ALSO AFFECT THE PRICE INDICES.

11. IN ANTICIPATION OF AN ALMOST CERTAIN PUBLIC CALL FOR ACTION TO RESTRAIN INFLATION, THE GOVERNMENT ANNOUNCED THIS WEEK THAT THE MINISTRY OF INDUSTRY WOULD ESTABLISH A SYSTEM OF PRICE CONTROLS (PRESUMABLY ON PRIVATE SECTOR PRODUCTS) WITHIN FIFTEEN DAYS.

12. COMMENT. THIS NEW PRICE CONTROL SYSTEM WILL REQUIRE CAREFUL IMPLEMENTATION. UNLESS THERE IS A FLEXIBILITY TO ALLOW PRODUCERS TO INCREASE PRICES SUFFICIENTLY TO COMPENSATE FOR INCREASED COSTS (E.G., HIGHER COST OF IMPORTED COMPONENTS DUE TO THE LIRA DEPRECIATION AND THE STAMP TAX INCREASE; HIGHER LABOR COSTS FROM NEGOTIATED WAGE SETTLEMENTS WHICH HAVE RECENTLY AUTHORIZED WAGE/BENEFIT INCREASES OF 80 TO 120 PERCENT OVER THE NEXT TWO YEARS; AND HIGHER PRICES ON INPUTS FROM SEE'S) THE LIKELY RESULT OF THE EXPANDED PRICE CONTROL SYSTEM WILL BE SHORTAGES AND THE CREATION OF BLACK MARKETS. UNLIKE THE SEE'S, THE PRIVATE SECTOR DOES NOT HAVE ACCESS TO TREASURY TRANSFERS TO COVER ITS LOSSES.
SPIERS

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INFLATION, GNP, PRICE CONTROLS, PRICE INDEXES
Control Number: n/a
Copy: SINGLE
Draft Date: 03 apr 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978ANKARA02453
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780143-0508
Format: TEL
From: ANKARA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t197804101/aaaadhxv.tel
Line Count: 262
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: b95135a6-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 04 mar 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2820334
Secure: OPEN
Status: NATIVE
Subject: INFLATION IN TURKEY: THE MEASUREMENT DIFFICULTIES
TAGS: ECON, EFIN, ELAB, TU
To: STATE USEEC
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/b95135a6-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014